Decision ______________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Gas & Electric Company (U 902-E) for Order Approving Power Purchase Agreements with Certain Qualifying Facilities.	Application 02-03-010 (Filed March 8, 2002)

OPINION APPROVING SAN DIEGO GAS AND ELECTRIC COMPANY'S APPLICATION FOR POWER PURCHASE AGREEMENTS WITH CERTAIN QUALIFYING FACILITIES

Summary

This decision approves San Diego Gas and Electric Company's (SDG&E) Power Purchase Agreements (PPA) with three qualifying facilities (QF) located in its service territory. The three QFs are Minnesota Methane (MM) San Diego LLC, QFID 455; MM San Diego LLC QFID 450; and MM Prima Deschecha Energy LLC, QFID 448 (the MM Projects).

Background

SDG&E filed its application March 8, 2002, requesting Commission approval of PPAs with the MM Projects, and a Motion for a Protective Order to preserve the confidentiality of certain information in the PPAs, including energy prices, dates, and certain other commercial terms. SDG&E asserts these facts should remain confidential since they contain commercially sensitive competitive information, the public disclosure of which would harm the MM Projects and their affiliates.[1] SDG&E also filed a public version of the PPAs that redacts the energy prices, dates and certain other commercial terms. SDG&E requests expedited *ex parte* Commission action under Rule 15(d).[2]

SDG&E states that the PPAs were negotiated during the final quarter of 2001 and early 2002 as the MM Projects were anticipating the December 31, 2001 expiration date of their Uniform Standard Offer No. 1 (USO1) contracts approved in Decision (D.) 96-10-036. SDG&E currently purchases power from the MM Projects under the terms of a temporary "Bridging Agreement" negotiated by the parties to facilitate continued power deliveries during negotiation of new PPAs. Under the Bridging Agreement, which expires June 30, 2002, energy is purchased at short run avoided cost (SRAC) prices, subject to a cap. SDG&E requests that the Commission approve the terms and conditions of the new contracts, and allow SDG&E to recover its full costs for purchased power under the contracts, subject to SDG&E's prudent administration of the contracts.

SDG&E contends the PPAs will provide an additional QF power source and provide SDG&E ratepayers with benefits of QF power at significant savings over the price using the Commission's SRAC pricing formula. SDG&E estimates that based on the past average performance of the MM Projects, projections of natural gas prices and projected output, the savings would be 47% compared to SRAC energy prices and capacity payments made under USO1 contracts. These

[1] Public disclosure of this information may also harm SDG&E and its ratepayers.

[2] All references are to the Commission's Rules of Practice and Procedure unless otherwise noted.

estimates include a minor escalator that takes effect during the term of the contracts.

On April 15, 2002, the Office of Ratepayer Advocates (ORA) filed a Motion for Leave to File Attached Response under seal.[3] ORA's Response questions the amount of savings projected by SDG&E and the amount of the price escalator incorporated into the PPAs, and requests clarification from SDG&E regarding SRAC forecasts and line losses. ORA states that if these issues are clarified by SDG&E then it does not oppose SDG&E's request.

SDG&E filed a reply to ORA's Response, under seal,[4] on April 26, 2002. SDG&E's reply addresses each of ORA's concerns and comments on the value of projected savings, including capacity values, the price escalator, and the impact of line losses on SDG&E's calculations.

Both SDG&E and ORA agree that the instant proceeding should be classified as ratesetting, and that there is no need for evidentiary hearings as there are no material facts in dispute.

On May 3, 2002 the assigned Administrative Law Judge (ALJ) issued a ruling requesting SDG&E to provide information regarding its economic analysis of the potential customer benefits of the PPAs including forecasted natural gas prices that support SDG&E's statement that the contracts provide a significant benefit to ratepayers. On May 23 SDG&E filed its response to the ALJ's May 3

[3] This motion is unopposed and we grant ORA's motion to file under seal.

[4] This reply should remain confidential consistent with the ALJ's ruling on April 12, 2002 granting in part SDG&E's motion for protective order.

ruling, including a motion that the response, an analysis of ratepayer benefits, be filed under seal.[5]

Discussion

We have reviewed the confidential versions of the PPAs including contract terms and the power purchase prices proposed by SDG&E. We have also reviewed the response of ORA to SDG&E's application, SDG&E's reply to ORA, as well as SDG&E's response to the May 3 ALJ ruling. In weighing the information and analyses provided in these documents, we conclude that the MM Projects provide positive benefits to ratepayers under a range of scenarios and that the proposed contracts are reasonable.

SDG&E claims that the MM Projects would provide an estimated 47% savings to ratepayers during the term that the contracts are in effect.[6] Subsequently, SDG&E revised downward its projected savings to 43% to reflect new information. Although we have discounted this savings in our analysis with regard to the future value of capacity, the result continues to show that the new PPAs will provide net positive benefits to ratepayers. We believe that the minimum energy savings to ratepayers will be at least 7% of the cost otherwise incurred under current SRAC payments, and that the overall savings, including capacity value, may significantly exceed this minimum amount.

The term of these contracts is very short. According to Section 4 of the contracts (Term and Termination), the contracts will terminate on June 30, 2003.

---

[5] This motion is unopposed and we grant SDG&E's motion to file its Analysis of Ratepayer Benefits, including the Attachments, under seal.

[6] Based on a comparison to current SRAC payments.

In other QF contracts we have approved amendments for much longer periods leading to greater uncertainty regarding the results of the projections. In this instance, the relatively short time frame of the contracts further supports our analysis by reducing the uncertainty of future SRAC payments that we use for purposes of comparison. Thus the shorter analysis period also supports our conclusion that the MM Projects are reasonable.

In sum, we find SDG&E's application to be reasonable and we will approve it. Our approval also will permit SDG&E to recover in full through its rates, the costs for purchased power under the PPAs subject to SDG&E's prudent administration of the contracts.

In Resolution ALJ 176-3084 dated March 21, 2002, the Commission preliminarily categorized this application as ratesetting, and preliminary determined that hearings were not necessary. No protests have been received. Given this status public hearing is not necessary and it is not necessary to alter the preliminary determinations made in Resolution AL 176-3084.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. The Uniform Standard Offer 1 contract between MM Projects and SDG&E expired in December 2001.

2. The MM Projects currently provide energy to SDG&E under a Bridging Agreement that expires on June 30, 2002.

3. In late 2001 and early 2002, SDG&E and the MM Projects negotiated new PPAs that will terminate June 30, 2003.

4. SDG&E filed its application for approval of the new PPAs on March 8, 2002.

5. ORA filed a response to SDG&E's application under seal that questions certain of the assumptions used by SDG&E in its application including the amount of ratepayer savings projected by SDG&E.

6. SDG&E and ORA agree that there is no need for evidentiary hearings as there is no material dispute of fact.

7. The new PPAs provide energy to SDG&E at a cost that is less than the projected cost using the current SRAC formula.

8. As a result of reduced energy costs, the new PPAs are expected to benefit ratepayers by a minimum of a 7% savings compared to projected SRAC energy costs.

9. Including the value of capacity costs may increase the total savings to ratepayers by significantly more than 7% compared to projected SRAC costs.

10. The short period for which the contracts are in effect reduces the uncertainty of energy cost projections.

Conclusions of Law

1. The terms and conditions of the PPAs set forth in SDG&E's March 8, 2002 application are reasonable and should be approved.

2. SDG&E should be permitted to recover in full, through rates, its costs for purchased power under the PPAs, subject to SDG&E's prudent administration of the contracts.

3. The specific prices, dates, and certain other commercial terms of the PPAs should remain confidential since they contain commercially sensitive competitive information, the public disclosure of which would harm the MM Projects, SDG&E and ratepayers.

4. Because all issues have been addressed by this decision, this proceeding should be closed.

5. Since no one objected to the relief requested in SDG&E's application, we waive public review and comment on this decision.

6. In order that ratepayers may immediately benefit from the PPAs, this decision should be effective today.

ORDER

IT IS ORDERED that:

1. This order is a final determination that a hearing is not needed in this proceeding.

2. The March 8, 2002 application of San Diego Gas and Electric Company (SDG&E) for approval of the Purchased Power Agreements (PPA) with Minnesota Methane (MM) San Diego LLC, QFID 455; MM San Diego LLC, QFID 450; and MM Prima Deshecha Energy LLC, QFID 448 is approved.

3. SDG&E is authorized to recover in rates all payments under the PPAs subject to prudent administration of the contracts.

4. SDG&E's motion to file its response to the Administrative Law Judge's May 3, 2002 ruling under seal is granted.

5. This proceeding is closed.

This order is effective today.

Dated ____________________________, at San Francisco, California.